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THE TARIFF AND THE ULTIMATE CONSUMER[1]

The middleman is on the defensive in these days of "efficiency," and justification is demanded of him for the exercise of functions which once were accepted as natural and necessary. To suggest, however, that he should be compelled to bear the cost of protecting the producer whose goods he sells, seems to demand more than may justly be expected, even of the now long-suffering middleman. That this can be done, and that therein may be found a theoretically sound basis for protection, is the suggestion advanced by Professor Henry C. Emery in the September number of this journal under the title which heads this article.

Because of the many complexities of the market, particularly the existence of set prices for many commodities, protective duties may be so adjusted, he suggests, as to "secure to the producer a somewhat higher price than he would be able to get without the tariff . . . without laying any additional burden upon the consumer." If sufficient data are obtained as to actual market conditions for each protected commodity, a point can be found at which to adjust the duty so that the increase in the producer's price will be great enough to be really protective, and at the same time slight enough so that the increase in the price paid by the retailer, assuming the manufacturer's increase is not absorbed before it reaches him, will be so insignificant that he will not raise the price paid by the consumer; or, in the case of set price goods, will not transfer the protected commodity to the class of goods having the next higher set price.

In elaborating his suggestion, Professor Emery follows three lines of reasoning. (1) He points out that actual market conditions are so complex that the economist's theories do not apply as he supposes, and that the theory of value—the groundwork upon which the generally accepted theories of the incidence of taxation are based—needs reconstruction and may even be altogether worthless, because it does not meet the facts as they actually are. He is therefore not convinced on theoretical grounds that the consumer bears the tax in the case of a protective duty, and prefers to reopen the question on "practical" grounds. (2) Despite the (to him) apparent invalidity of the theory of value, he admits, nevertheless,

[1] A reply (with some remarks on the theory of value) to "The Tariff and the Ultimate Consumer," by Henry C. Emery, in THE AMERICAN ECONOMIC REVIEW, vol. V, no. 3 (Sept., 1915).

that, *in the long run*, the accepted theory of the incidence of protective duties is valid, that the consumer will pay a higher price if the producer receives a higher price. He chooses, however, to dismiss the "long-run" result on the ground that it is beside the point. He is concerned, in the article under discussion, only with "the intensely practical question of the probable effect of actual tariff changes in this country," and does not consider that long-run results need play any part in questions of tariff practice. He confines himself, therefore, to those most obvious effects which follow shortly after a change in duty. (3) He points to specific changes of duty which, he believes, would have been absorbed in the distributive process, and maintains that it can usually be ascertained by actual investigation whether or not a given change in rate will be carried on to the consumer.

Professor Emery is confident that his suggestion is practicable, and goes so far as to assert his belief "that if any sound economic argument for the permanent maintenance of a certain scale of protective duties can be made, the germ of it will be found . . . in this consideration of the relation of producer to consumer."

In endeavoring to show the questionableness of this suggestion, both as a practical problem in protection and as a groundwork for a sound protective theory, I wish to acknowledge the worth of such criticisms of our accepted theory of value as that made by Professor Emery in his paper. Our science is moving toward things "practical." As a completely deductive science, it failed to win its way among those who most need a working knowledge of its principles, and the present trend toward the practical, in the way of closer study of the more intimate facts of business organization and business practice, seems likely to give it better standing and greater usefulness in the world of business and of politics. Our theory has seemed remote from the real facts of life. We have maintained that, given certain conditions, the price of a commodity would move in a specified direction, *provided* that competition were unrestricted, or that complete monopoly existed; and the tendency has been to dismiss the fact that competition usually is restricted in one way or another, and that many monopolies are not complete. The trained economist, to be sure, has realized the hypothetical nature of his premises and conclusions, and has come to understand not merely that his conclusions must be modified, but in general how they must be modified in the many cases in which competition is restricted and monopoly incomplete. The average student of

economics, however, together with laymen in general, has not understood the matter, and has more often than not carried away the impression that the economist either does not know what he is talking about, or is talking about conditions which do not exist. Studies in the factual basis of economics are therefore more than justified. But factual studies can never replace the deductive science. They can only add to its reputation and applicability by a double process of limitation and extension, limiting the applicability of purely hypothetical conclusions, extending the applicability of modified forms of these conclusions. This is perhaps what Professor Emery had in mind when he suggested "disregarding the old theory [of value] till we have made a new inductive study of price phenomena as they appear in the actual markets of the day."

Are we likely to acquire from factual studies in the market-place the basis for a new theory of value, as Professor Emery seems to think? There appears to be an increasing tendency, illustrated by Professor Emery's article, to shelve the old theory and hunt in the maze of facts for a new one. I find it impossible to believe, however, that the fundamental basis of the theory of value can be even materially modified in this manner. We may throw light upon the validity of our present theory in particular cases, but a new theory can not be found in the market-place. Is not value largely a matter of psychology and, perhaps, of biology? Surely for the marginal utility theorist it is. He takes ready-made the psychological facts of desire, and translates them into utility. He takes the psychological (and physiological) facts of response to stimuli, and translates them into a law of diminishing utility. Whether the marginal utility theory is correct or not, human wants are the underlying foundation upon which any theory of value must be built. No purely objective theory has ever sufficed to explain the facts of value. Even the adherents of the cost-of-production theory, the nearest approach to an objective theory that has ever obtained any standing, have taken refuge in psychological interpretation of it. Yet we can obtain only an objective theory from pure induction in the market-place. The facts of the market are meaningless to us, except in the light of human wants. Human wants acquire significance in the light of modern psychology and its basis, biology.

In so far as the theory of value is not founded upon psychology, it is based upon the chemistry of agriculture and the commonest principles of physics. These the economist synthesises into a law

of diminishing returns, and upon it builds the non-psychological part of the theory of value. We may throw considerable light upon this phase of value by going behind the market and studying the technological organization of industry and the ratios between land, labor, and capital actually existing in established industries. The relation of these factors to one another in jobbing and retailing would be well worth bringing to light, as well as their interrelation in other industries. But when we have learned the facts, we shall be no nearer a perfect and permanent theory of value than we are now. We shall only have discovered the limits of the field within which our present theory applies. We know already the effect of diminishing returns on cost, and so on price, though, for the most part, we did not discover it from inductive studies in market price. We shall hope to gain light from studies in the marketing of goods, upon the extent to which the law of diminishing returns is applicable, and to learn how numerous are the industries in which the combination of land, labor, and capital is such that, for a time, costs will decrease with increase in production, instead of increasing. We know already, though not from induction, how in general such a combination of factors affects price, and we are working our way toward a more comprehensive understanding of this dominant fact in large-scale production; but, again, not by induction. In this the inductive studies thus far attempted have been of little, if any, assistance, except for illustrations. Induction showed that in some industries costs did decrease with increase in production. It did not give us the explanation.

We may hope to learn more definitely from studies in marketing, the limitations of our premises and conclusions. We may hope also to gain light on the relative importance of non-economic factors in the determination of price. We may hope, further, to increase our knowledge of the elasticity of organization. How far is there such a thing as perfectly "free" competition? In what ways is competition not free? To what extent has monopoly displaced it? How much influence have such non-economic factors as habit, friendship, racial clannishness, patriotism? What forces bring it about that men do not attempt to secure absolutely the maximum gain from business and how widespread is such a condition? These are questions which we may hope to answer by the use of facts gleaned in such investigations as that of the Tariff Board and such as Professor Emery suggests in the article under discussion. But we shall not discover in them a new basis for a theory of value.

This is the disappointing aspect of the so-called historical school whose adherents have insisted upon the value to the economist of the facts of economic evolution. Practically nothing has been contributed by that school to economic theory. It is the prime disappointment of economic history in general, that it has failed to throw light, to any appreciable extent, upon economic theory, except in the way of illustration. Its value has been chiefly of a practical nature, the explanation and clearer understanding of the facts of economic organization. In this it abundantly justifies itself, but not for any contribution to economic theory. May not one assert still, despite the growing insistence upon inductive study, that in its fundamentals, economics, so far as the theory of value is concerned, is a deductive science and can not become inductive.[2]

Passing to more special topics in Professor Emery's article, let us take up first the complexities of the market to which Professor Emery refers, and which, he thinks, might make it possible to levy tariff duties so as to fall upon the middleman. We find that these consist of the set price system, and the ubiquitous existence of monopoly and quasi-monopoly in many, if not most, lines of trade, with the accompanying practice of charging what the traffic will bear. Professor Emery objects that the economist "has been in the custom of waiving aside as 'abnormal' or 'temporary'" the phenomena presented by these complexities. I have indicated above that this, which would be a body blow were the accusation true, fails to meet its mark because the economist does consider these phenomena and does recognize that, in the dynamic state in which economic life exists, they are not abnormal. That we have not found a wholly satisfactory explanation of the movements of individual prices when conditions are dynamic, rather than static, is due not so much to a want of facts as to inability to isolate facts as the natural scientist does. The physicist, wishing to trace the flight of a bullet from a gun, does not first of all experiment by firing the gun and searching for the bullet, and then guessing what effect air pressure, wind, and other factors had upon it. From data contributed by the mathematician, and by previous experiments of the simplest sort, he calculates its flight in a vacuum, then calculates one by one the effects of various factors upon it until, if his data and his calculations were exact enough, he could fire the gun and afterward pick up the bullet. This is deduction of the

[2] For the purposes of this paper, this assertion is limited to the theory of value. I do not maintain, and do not believe, that all branches of economics are deductive only.

purest sort. It is based, to be sure, on previous inductions, but so also are the deductions of the economist concerning value. The psychologist, the physicist, and the chemist have performed them for him. Let us not be misled by the infrequent existence of a major premise. "Free competition" is no less existent than the physicist's vacuum. Both physicist and economist must work with premises capable of formulation. It might be possible to deduce a theory of value from complete monopoly, which is probably more of a reality than its opposite. Some premise, capable of exact formulation, is necessary. Logical reasoning can be built upon no other basis. And one or the other of these extremes, free competition or complete monopoly, is the only starting point from which logical thinking concerning price can proceed, for only these two conditions fulfil the requirements of logic. Other conditions of the market represent degrees of these.

Indeed, Professor Emery is under the logical difficulty here of trying to prove too much. If our theories of price are invalid in the light of the facts, we are all anxious to have it proved, but to establish Professor Emery's proposition concerning tariff duties some other theory must be substituted. That there are uniformities of condition and action which may serve as premises for conclusions, no one seriously doubts. To suggest that there are not, is to imply that no reasoning whatever is possible on the matter. To suggest, as Professor Emery does, that there are uniformities, but that we do not know them, is to destroy just as effectively the value of the suggestion he makes. If we have no valid theory to guide us we do not know whether the consumer bears the burden of a tariff or not. The investigator's facts are meaningless. We do not know how the consumer may escape or the middleman bear the burden. A constructive suggestion which rests upon the destruction of known propositions without offering substitutes for them is abortive. If the theories of value and distribution now extant are valid, the existence of monopoly and quasi-monopoly make it more, not less, probable that the middleman will shift the burden to the consumer. If there is no valid theory, then we do not know who bears it under conditions at all complex, and it would be useless to attempt to adjust duties so that they should fall on any one or another group of persons.

Looking at the matter from the "practical" standpoint, the complexities of the market are admittedly great, so great that, without reference to its theoretical aspects, Professor Emery's suggestion

seems to be valueless, so far as the theory and practice of protection are concerned. The set price system in particular contains elements of complexity not present in the marketing of goods whose prices are variable. Let us analyze some possible methods of shifting under this system, in which shifting is most difficult. Competition in other goods may take the form of variations in quality at a given price, or of price with a given quality, or it may perhaps take both forms. Under the set price system, however, there can be no competition in price. Only quality is variable, and competition becomes a matter of quality instead of price. This fact is enough in itself to make impossible any attempt to foretell what the effect of a given change in producer's price will be. It might be possible to adjust the change in price so that the goods affected would not be reclassified in a higher priced group. But it would certainly not be possible to foretell whether changes in quality would result.

If the producer's price is changed, there are at least four methods of shifting to which middlemen may resort, supposing the change to be so slight that reclassification of the goods at other customary set prices is impracticable.

(1) The retailer, or perhaps the producer or jobber, may openly advertise that the cost has been increased, and introduce a new set price midway between two old ones; or the new price may become the common one without any specific explanation. Nine tenths of the men who buy linen collars, for example, purchase them at the price of "two for a quarter." The next higher set price for this grade of collar would doubtless be three for 50 cents, or possibly 15 cents apiece; the next lower, three for 25 cents, or perhaps 10 cents apiece. Collars of only a slightly higher grade may be bought at "quality" stores at the present time at three for a dollar, or 35 cents apiece, while a slightly poorer quality may be purchased from mail-order houses and some other establishments at six for 59 cents, or a price approximately 10 cents each. How much pressure would it take to introduce the "quality" store's set price as the price for all stores? How much of a reduction in cost would bring the ordinary price down to that of the mail-order house? Who could prophesy whether or not such a change would result from a change in the cost of producing or marketing collars? It would not take place in a month, and might not in a year. It certainly would take place inside of five years, if the whole collar trade felt the increase or decrease in cost, and no other way of escape were open.

A further illustration may be found in the automobile industry, where an early tendency toward set prices has been entirely overcome by numerous and sweeping reductions in cost of production. It is only a few years since motor cars were known as "thousand-dollar" cars, or "twenty-five hundred dollar" cars, etc., the tendency being to sell at prices around the multiples of $500, and at even hundreds of dollars. Now one may buy cars for $395, or $440, or $985, or $1295, or $2075, and so on. And this increasing variety of prices has, curiously enough, accompanied an increasing standardization of parts and equipment. All these cars, with the possible exception of the two lowest priced, are "fully equipped," "standard" cars. How much change of this sort is required to break up a set price system altogether?

That it is possible to raise a price, on the ground of maintaining quality, or improving it, outside the set price system, is seen in the case of at least three automobile companies within the past three years. Within a few months an eight-cylinder machine has been raised in price, from a little below to a little above $2000, on the ground that the company could not make a profit at the earlier price without reducing the quality of the material put into the machine. How great a change in cost would compel producers or sellers of set price goods to take a similar step?

(2) Another course open to producers and distributers of set price goods when costs are increased is that of deception in the classification of goods. A part of the goods formerly sold at one set price may be slightly altered and put in the group of goods next higher priced. This is not infrequently done in the case of goods sold to ladies. For example, a 15-cent toilet soap may sell for 25 cents with a different name and a fancier wrapper, and perhaps a slight difference in perfume or shape of cake. This practice is especially fruitful where the appeal is to personal taste and a higher price becomes in itself an element of increased utility.

Outside of set price goods, the writer knew of an article of builder's hardware sold in two grades, with a very slight difference in finish. The cost of the two grades was practically the same, and one finish about as good as the other, but the intention was to appeal to two classes of buyers by selling practically the same commodity at two different prices. How much change in the cost of set price goods would be necessary to introduce or increase similar practices in the sale of such goods?

It is necessary to distinguish here, as in all the cases cited in

this paper, between what one merchant or producer may do and what may be done by all the merchants or producers having to do with a commodity, when all are affected. In the long run, the individual merchant who habitually resorts to any of the practices outlined here, is likely to suffer at the hands of his competitors, if they adhere to conventional methods and prices. But when all merchants who carry the goods affected are subject to the same increase in cost, their common necessity, directed by common business experience, will certainly lead most if not all of them to shift the cost in the easiest way. It may be that not all of them will shift the increase in the same way, although in these days of trade papers and trade organizations there is a tendency for all to resort to pretty much the same method. It is certain that there will be few who do not before long shift the cost in some way.

(3) A third mode of shifting an increase in cost, already referred to, is reduction in quality instead of increase in price. If one doubts that costs may be shifted by deteriorating the quality of a good instead of raising the price, he has only to consider the various grades of "all wool" suitings, and the development of the shoddy industry. Or a further illustration may be found in the boot and shoe industry. Ex-Governor Douglas, one of the largest manufacturers of shoes in this country, has been quoted as saying that the tariff on hides, while it lasted, cost the people of the United States millions of dollars in poorer shoes; and during the last session of Congress, some one proposed a "pure shoe" law, to prevent the use of paper-fibre in counters and other exposed parts. Both ready-made clothing and shoes are classic examples of set price goods. Is it not possible, not to say probable, that widespreading adulteration, enduring over a long period of years, has been due to increasing costs which could not be so conveniently met by changes in price as by adulteration in quality?

(4) A fourth course of action may be undertaken under certain conditions if there is no other mode of escape. If it is impracticable to change either price or quality, the increase in cost may gradually be shifted to other commodities, although the economist dislikes to admit that this is possible. In many lines of retail merchandising and some lines of manufacture there are commodities which are everywhere handled as a regular part of the business, but which, owing to conditions which have grown up with the trade, yield little or no profit. The merchant does not expect to make a "fair" profit on them, but makes up his loss by securing

large profits on certain other goods. He expects his business to pay him *on the average* his customary annual rate of profit, though part of his stock regularly yields him less and part regularly more. Here again, if only one merchant or manufacturer had a loss to recoup, he would not, of course, be able to do it in this way. Competition would deprive him of many or all of his customers. But when the loss of profit on certain articles is common to the business, having to be borne by all those engaged in that business, they can, as a group, make it up, and no business man would question that, year in and year out, they would do so. A common example of this practice, outside of set price goods, is found in the case of grocers and sugar. Compare an ordinary grocer's rate of profit on sugar and coffee. In the hardware trade certain grades of hinges and butts supply a parallel from the manufacturer's standpoint. He makes little or nothing on barn-door hinges, but recoups his loss on fancy butts.

This practice obviously would be available for set price goods only in the case of goods generally handled by merchants or manufacturers dealing in other goods not subject to set prices. It is true that this is not the case with many of the most conspicuous examples of set price goods, for example, men's ready-made clothing, hats and caps, and ladies' ready-made suits, cloaks, and skirts. Dealers whose business is confined to set price goods can resort to this method of shifting only as some one or more of their wares, not affected by the increase in cost, has a demand so inelastic that a shift in classification is practicable.

I do not intend to maintain that resort is likely to be had to this method of shifting in any case if any other method is available, much less in the case of set price goods; but it is a possible method under certain conditions and must be reckoned with, however remote the probability of its occurrence.

It is, to be sure, more or less repugnant to the economist to suppose that the shifting of taxes can ever take place in this way, his reasoning being that, if the price of a commodity could be raised to the dealer's advantage after a tax has raised the price of some other commodity, it could have been raised, and would have been raised to the point of maximum advantage before the tax was levied, and therefore could not be raised without loss afterward. This conclusion is based on the assumption that the entire economic machine is tuned up by the economic motive to the point of maximum gain and maximum efficiency, an assumption which, we have

come to recognize, is not strictly true. At any rate, it is certain that some goods are regularly sold at rates of gross profit which do not cover all the expense involved, while other goods are selling at the same time and place at prices which yield a very large rate of profit, no monopoly element being involved in the one case more than in the other. The usual explanation for this phenomenon is that the profitless commodities are used as an attraction to draw trade in profitable goods. This was true of the hinges referred to in a previous paragraph, and is true of sugar and flour in the grocery business. The point is, that a trade habit once formed tends like other habits to perpetuate itself and to ramify its activities. Is it not possible under the conditions described that, in the case of other more or less standardized goods with a very large demand such as these have, an increase in cost occasioned by a tariff duty may be shifted in this way, if all other ways are closed and all dealers are affected alike?

In the foregoing analysis of modes of shifting taxation, I do not pretend to have exhausted the possibilities. There remains, for example, the case of joint products, of which one may be protected while the others are not. I have merely attempted to point out a sufficient number of possible cases to show the futility of an attempt to so adjust a protective duty that it will not be shifted to the consumer. If no method of shifting is possible, the result will be, if our theory is worth anything, that the marginal competitors will be forced out of business, or that the business will fail to grow proportionately with the growth of population. This is a long-run result, to be sure, but not a very long run is required for its accomplishment. In five years the readjustment would certainly be effective in a country whose rate of growth is as great as ours. Five years is not a "long run" for the working out of an economic change. A tariff act which does not contemplate results five years distant has no claim to be called "intelligent." When a duty is reduced it may take more than five years to wear out the machinery used in the industry affected or to convert the buildings to another use, so that the business may be run at a loss for a time rather than lose the entire investment. When an infant industry is protected, more than five years is likely to be required for its firm establishment.

There is one condition in the existence of which the tax may not reach the consumer's purse. If competition has been sluggish and dealers have grown careless, the increase in the producer's

price may be absorbed in the tightening up of the control of expenditures by the dealers, so that the total cost incurred by them may not be greater or may even be less than before. But if this can be done after the change in duty, it could have been done before it and without it. The tariff has no necessary connection with the scientific management of business. Indeed, the question may well be raised, whether tariff duties will ever, except in rare instances, bring such economies to pass—whether, on the average, costs made up by high prices before, will not be met in the same way after an increase in duty. That economies in the distribution of goods can be and are being brought to pass, is well known. But it would be difficult, I suspect, to find many instances where such economies resulted from an increase in protection. Indeed, there is more ground for the familiar free-trade speculation, fairly well borne out by concrete instances, that protection, instead of leading to economy on the part of the middleman, perpetuates waste on the part of the producer. It is equally possible that laxity in business may be corrected at the consumer's expense, when costs are raised. For example, services in the way of delivery out of town and the like, formerly performed free of charge, may, after the increase in cost, be performed only for payment.

There are too many possible ways of shifting a protective duty, to make it reasonable to assume that the consumer does not bear the burden of it, merely because no change in the consumer's price can be found. And even if all the possible shiftings could be discovered after the duty became effective, it would be impossible to forecast what would happen in advance.

Professor Emery anticipates that one objection raised against his suggestion will be that "it is impossible to secure a sufficiently accurate knowledge to be of practical use." His experience in the work of the Tariff Board leads him to believe that adequate information can be obtained. If the tariff can not be so revised as to throw its cost upon the middleman, as I have endeavored to show, it is, of course, of little avail to discuss the possibility of securing information adequate for the purpose of so revising it. I should like to point out, however, that in the case of many duties it is not even possible to trace that apparent incidence which Professor Emery believes is the "actual effect" of the duty. In the case of the removal of the duty on wool, which he uses as a typical case in the article under discussion, he plainly shows that it could not be done. After briefly going into an analysis of the cost of a

ready-made worsted suit retailing ordinarily for $23, he says: "Whether so small a reduction [as would be brought about by the repeal of the wool duty] would redound to the benefit of the consumer or be absorbed in the process of distribution is, of course, something that could be finally determined only by experience. It is not by any means to be assumed that the consumer would get his suit 50 cents cheaper. On the other hand, if the consumer's price were reduced at all it would probably be reduced by more than the 50 cents, because of the fact that the suit would be thrown into a lower-priced class." In other words, the data obtained by Professor Emery's own board and compiled under his direction are not "adequate for the purpose" of adjusting a duty on wool as he suggests.

Again, illustrating the complexities involved in tracing the supposed effect of the change in the duty on the worsted used to make this suit, he writes: "Here again the question arises as to how far this saving on the cost of cloth, to wit, less than 5 per cent on the price of the suit, would be reflected in the actual price paid by the consumer. . . . The mere fact that the clothing manufacturer could get his stock somewhat cheaper from the English cloth manufacturer than from the American does not necessarily mean that the price to the consumer would be reduced." "On the other hand," he continues, "any one thoroughly conversant with the range of mill prices, jobber's prices, and retail prices over a period of years, can probably predict the change with a fair degree of accuracy." The Tariff Board had as much opportunity to become "thoroughly conversant" with the facts as to wool and woolens as any board or bureau is ever likely to have, with industrial traditions such as are ingrained in the character of American business men. Yet Professor Emery can not tell from his data what the apparent incidence of the Underwood duty on worsteds has been or would have been at the time his data were compiled. If it is impossible to predict, even "with a fair degree of accuracy" in the case of a commodity no further removed from the consumer than a manufactured raw material, how can we hope to arrive at adequate information in the case of raw material unmanufactured, and of machinery to manufacture it, and of the raw material to make the machinery?

In those simpler cases, in which the apparent effect of a change in duty is shown, a duty of so much per cent raising the consumer's price and another somewhat smaller producing no change

in it, the effect is only apparent, as I have shown. If there is any truth in the contentions I have urged, such figures only show that there is or is not an immediate shifting of the tax by a change in price. They give no clue whatever as to whether resort may be had to other methods of shifting. Far from proving that the consumer does not bear any burden, Professor Emery's instances only illustrate the futility of attempting to trace the incidence of most protective duties by means of inductive investigation. The final incidence of such a tax can not be ascertained in the market-place except in the simplest and least characteristic of cases for the very reason that "the complexities are so great, and conditions change so rapidly." If it be true, as Professor Emery leads us to infer, that the only sound economic argument, the only "intellectual justification, for permanent protection, is to be found in such considerations as these, the justification is indeed an empty one. But Professor Emery is to be congratulated for the frankness with which he states his case. It is not often the economist-protectionist has stated so squarely the grounds whereon he stands.

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Note in Rejoinder

Through the courtesy of both Mr. Wooster and the Editor, I have been allowed to read the above article in advance and to add this note which has in turn been read by Mr. Wooster. Our common object is, not to prolong a controversy but to avoid any question of misunderstanding and to make plain just where the issue is joined.

A preliminary word is perhaps desirable as to "long run" and "short run" effects. The reader will of course understand that in disregarding the former in my article, I did not lay down any general principle for the treatment of economic problems but confined myself solely to the tariff problem and even here only to a portion, even if a goodly portion, of the many possible cases. My reason is that I consider it proved by experience that in such cases, under our dynamic system of production and marketing, all the elements of the problem may be completely changed before the assumed long-run forces have any chance to operate. Mr. Wooster holds the view that in some measure these forces operate from the beginning and hence are themselves among the factors which bring about the complete change and help determine its character. He

believes that the continued assumption of the working of the long-time forces is a help for the practical problem. On the other hand, I feel that they work so slowly, while the dynamic changes come so rapidly, that this continued assumption is often a hindrance.

On the general theory of incidence, in its relation to the theory of value, I have made only a negative contribution. My article did not set up a new theory, but attempted only to show that in the matter of actual changes of tariff rates it frequently does happen that the consumer does not pay (or gain) the difference—and that in other cases he pays (or gains) more. I can not agree that destructive criticism is valueless or involves the unconscious assumption of a different general theory which ought to be made explicit. It may be that purely empirical studies yield no general principles. They may, however, suggest both the need and the basis of a new line of deduction. I have hoped that some economist abler than myself might be helped toward a more satisfactory expression of our theory of value by such purely factual studies.

Mr. Wooster's own modifications of the general theory are admirable. He belongs to that group of writers with whom I find myself most in accord, because of the extent to which they are willing to go in this regard. The question may well be left on his own showing. In his fourth method of shifting, he treats the total volume of sales by a retail establishment as a "joint product." I think this is correct, but it is going far when we come to practical questions. Imagine a consumer asking the old-fashioned economist, "What will happen to me if the cost of sardines at the factory is increased 10 per cent?" The answer would have been, "Your price will be ultimately raised by that amount or more." But the new economist will say, "Very likely you won't notice a difference, but the increase must be met somewhere, and perhaps your neighbor will pay more for his canned corn."

What I have questioned is the utility of a theory thus modified for practical legislation. Perhaps the issue may be put figuratively by considering our theory of value as a machine. Is it outworn to such an extent as to be scrapped? One man will say, "It is worn and patched, but it is absurd to scrap a machine till you have a new and better one ready." Another will say, "As long as we think we can get along with this, no one will invent a better one for us. Even a temporary return to hand-labor (Empiricism!) is better than such a cumbersome method."

The second main point is that of the utility of investigations by

a tariff commission. If such investigations are not valuable for practical use by the Ways and Means Committee, they had better not be undertaken. Most economists think they are not; most studious members of the Ways and Means Committee think they are. I regret that I was forced into a seeming inconsistency by excessive modesty. Mr. Wooster understands me to confess, through my phrase, "such questions can be finally determined only by the test of experience," that even the Tariff Board could not tell what would be the result of the changes in the wool and woolen schedule. I mean no more by the phrase than a recognition of an uncertainty in all human affairs. The Tariff Board *was* in a position to tell pretty definitely what the effects of these changes would be; and if such a commission is not able to make successful predictions of this kind, I agree it is not of much use.

Finally, I take issue with Mr. Wooster on his contention that these investigations into prices would not be adequate because they tell nothing as to other methods of competition besides price changes. It is a fair criticism to make against my article in the REVIEW, in which these other matters were not taken up. But they *should* be taken up by any commission and they *were* taken up by the late Tariff Board. Mr. Wooster's unfortunate reference to the "development of the shoddy industry" is a good illustration of the need of making empirical studies of the facts rather than assuming probable methods of shifting the burden to the consumer. The use of shoddy in woolen clothing (whether a good thing or a bad thing) has decreased not increased. Another good illustration is in the question regarding the effect of a tariff on the adoption of efficient and up-to-date methods. One may speculate indefinitely as to what would probably happen in a hypothetical industry. One can find out the facts by an investigation of an actual industry, and for practical tariff-making that is the important thing—*viz.*, to know what has been the result of some particular schedule. Investigation shows that one thing is true of one industry, and quite a different thing of another industry. Many of these matters were examined by the late Tariff Board and I believe that all the methods enumerated by Mr. Wooster could be covered in a practical and serviceable manner.

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